UNITED STATES DEPARTMENT OF AGRICULTURE
U.S. Foreign Agricultural Service
Foreign Trade Programs Division
Washington 25, D. C.

February 15, 1956

Brief Explanation of Operations Under Title I, Public Law 480 Program
(Letter of Commitment Method of Financing)

Commodity agreements under Title I, Agricultural Trade Development and Assistance Act of 1954(Public Law 480, 83rd Congress) as amended, are entered into with governments of importing countries and provide for payment of commodities in local currency, such currency being expended as specified in section 104 of the Act. Following such government-to-government agreements, actual sales arrangements are made by private U.S. exporters and importers authorized by the importing countries. Purchase authorizations and appropriate announcements are issued containing the necessary information to enable United States exporters to compete for sales under the program. Since U. S. Government funds are used to finance Title I sales, certain controls have been established, as follows:

1. The Government of the importing country designates certain banks in the importing country and in the United States to participate in the program. The Commodity Credit Corporation issues letters of commitment to the U. S. banks in the amounts requested by the Government of the importing country, the total amount of such letters of commitment being the amount provided for in the purchase authorization. Each letter of commitment names the foreign bank as well as the U. S. bank and constitutes a commitment by the Commodity Credit Corporation to reimburse the U. S. bank for payments made under letters of credit for the account of the foreign bank in connection with export sales under the purchase authorization.

2. Foreign importers who make contracts with U. S. exporters apply to their local banks for letters of credit in favor of the exporter. Just as in normal commercial practice, these letters of credit are paid through correspondent banks in the United States, the only limitation being that the foreign bank must use as correspondent a U. S. bank holding a CCC letter of commitment naming such foreign bank.

3. The U. S. banks pay dollars to U. S. exporters against documentation and drafts in the usual manner; however, instead of debiting the foreign bank for such dollar amounts, the U. S. banks obtain reimbursement from the Commodity Credit Corporation. The foreign bank then pays the value of the documentation, when received by it, by depositing local currency to the account of the U. S. Government rather than crediting dollars to the account of the U. S. bank.

Under this procedure, the U. S. exporter can assure that the transaction, if otherwise in compliance with the program, will be financed by insisting that his contract be covered by an irrevocable letter of credit, bearing the purchase authorization number, issued or confirmed to him by a U. S. bank. The letter of commitment is issued to the U. S. bank with respect to a named foreign bank, not with respect to any particular exporter.

Except in the case of cotton, the U. S. exporter is not required to report to the Department of Agriculture the contracts entered into. His obligation in this respect is to assure that the required documentation accompanies his draft presented to the bank for payment for the commodity.